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September 14, 2001

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37201

In Re: *Joint Petition of Crockett Telephone, Inc., People's Telephone Company, West Tennessee Telephone Company, Inc. and the Consumer Advocate Division of the Office of the Attorney General for the Approval and Implementation of Earnings Review Settlement*
Docket No. 99-00995

Dear Mr. Waddell:

Enclosed for filing in connection with the above-referenced docket are the original and thirteen copies of the written rebuttal testimony of AT&T witness Richard T. Guepe. Copies are being served on counsel for parties of record.

Yours very truly,



Garry L. Sharp

Enclosures

cc: T.G. Pappas and R. Dale Grimes
Timothy C. Phillips
Gene V. Coker
Jack W. Robinson, Jr.



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BEFORE THE
TENNESSEE REGULATORY AUTHORITY

REBUTTAL TESTIMONY OF

RICHARD T. GUEPE

ON BEHALF OF

AT&T COMMUNICATIONS OF THE SOUTH CENTRAL STATES, INC.

DOCKET NO. 99-00995

SEPTEMBER 14, 2001

1 **Q. PLEASE STATE YOUR NAME, ADDRESS AND EMPLOYMENT.**

2 **A.** My name is Richard T. Guepe. I am employed by AT&T Corp. ("AT&T") as a District
3 Manager in its Law & Government Affairs organization, providing support for AT&T's
4 regulatory advocacy in the nine states that make up AT&T's Southern Region. My office
5 is at 1200 Peachtree Street, Suite 8100, Atlanta, Georgia 30309.

6
7 **Q. DID YOU PREFILE DIRECT TESTIMONY ON SEPTEMBER 7, 2001 IN THIS**
8 **PROCEEDING?**

9 **A.** Yes, I did.

10
11 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

12 **A.** The purpose of my rebuttal testimony is to respond to positions advocated by the CAD
13 and TEC witnesses in this proceeding. Specifically, I address rate design deficiencies in
14 the proposed Settlement Agreement.

15
16 **Q. WHAT IS YOUR UNDERSTANDING OF THE RATE DESIGN PROVISIONS OF**
17 **THE SETTLEMENT AGREEMENT BETWEEN THE TEC COMPANIES AND**
18 **THE CONSUMER ADVOCATE DIVISION?**

19 **A.** The Settlement Agreement between the TEC Companies and the CAD is not a rate design
20 agreement. Rather, the Settlement Agreement provides for a period of time credits to
21 monthly basic residence service and monthly basic business service, waives non-
22 recurring charges for residence and business services, eliminates intra-company toll, and
23 modifies the Contiguous Calling Plan. In addition, the Settlement increases depreciation
24 expense and allows adjustments for dialing parity impacts. In Direct Testimony, the

1 Consumer Advocate and TEC witnesses essentially suggest timing changes be made to
2 the settlement due to the passage of time, but they fail to address the fatal flaws of the
3 proposal. These credits and other adjustments are totally inadequate because they do not
4 address the rate design that created the over-earnings on a going forward basis and,
5 thereby, do not correct the rate design that directly contributed to the over-earnings. To
6 reduce basic residential and basic business rates which are already priced below the cost
7 of providing the service makes no sense in any reasonable rate settings proposal.
8

9 **Q. WILL THE SETTLEMENT AGREEMENT RESULT IN THE TEC COMPANIES**
10 **EARNING A REASONABLE RATE OF RETURN ON A GOING FORWARD**
11 **BASIS?**

12 A. No. As demonstrated so very clearly in the history section of Mr. Buckner's direct
13 testimony (pages 3-4), the use of credits to make up for past transgressions almost
14 guarantees the need to address the continuation of over-earnings in ensuing years. The
15 use of credits does not fix rates on a going forward basis to prevent that event from
16 occurring in future years. The whole essence of ratemaking is to use a test period to
17 adjust rates and design rates -- either up or down -- so that the utility will have an
18 opportunity to earn a fair rate of return on a going forward basis. The Settlement
19 Agreement attempts to give reparations for past over-earnings, but does not identify and
20 fix the rates that led to the companies' excessive profits in the first place. As a result, the
21 proposal in the Settlement Agreement is flawed and inadequate not only because it does
22 not address rates on a going forward basis but also because it does not attempt to
23 correct those rates that directly contributed to the over-earnings situation. The
24 application of simple common sense leads to the conclusion that over-earnings should be

1 reduced in those rates that created the over-earnings in the first place. The remedy to the
2 situation of TEC Companies continuing to earn excessive profits is to identify the rates
3 that produced the excess earnings and adjust these rates to produce a set rate of return.
4 The Settlement Agreement does not accomplish this regulatory objective.
5

6 **Q. WILL YOUR RECOMMENDATION TO MODIFY THE RATE DESIGN BY**
7 **REDUCING INTRASTATE ACCESS CHARGES APPROPRIATELY ADDRESS**
8 **THE TEC COMPANIES' OVER-EARNINGS ON A GOING FORWARD BASIS?**

9 A. Yes. Instead of simply giving credits for past over-earnings, my recommendation will
10 adjust the level of earning downward in a manner that will afford those companies an
11 opportunity to earn at reasonable levels in the future and perhaps avoid the need to
12 constantly come back to the TRA asking for credits to make up for past transgressions.
13 Tennessee ratepayers should not have to pay excessive profits to the TEC Companies with
14 the hope that some day they might get something back. Rates should be set at reasonable
15 levels at the outset and it is not reasonable to reduce the price of services that are below
16 cost. There is simply no regulatory rate making justification to reduce basic residential
17 and business rates as proposed by the TEC Companies and CAD.
18

19 **Q. AT PAGE SIX OF HIS DIRECT TESTIMONY MR. BUCKNER STATES THAT**
20 **AT&T SHOULD BEAR THE RISK AND REWARD OF A COMPETITIVE**
21 **MARKETPLACE. DO YOU AGREE THAT THE MARKET FOR ACCESS**
22 **SERVICES IS COMPETITIVE?**

23 A. No, the market for intrastate switched access service in the TEC Companies serving area is
24 not competitive and market pressures cannot be reasonably expected to control access

1 prices. Although "market forces" can be very powerful in moving the price of goods and
2 services toward costs in an open and equal competitive environment, the constant and
3 remaining monopoly control that the TEC Companies have over local networks and the
4 provision of intrastate access services is likely to continue for the foreseeable future.

5
6 Additionally, access services are perhaps the least likely services to be positively affected
7 by the introduction of competition. Unlike retail services, switched access service is an
8 input charged to a potential competitor -- and competitors are not likely to voluntarily
9 reduce their own revenues by reducing the cost of their rivals.

10
11 **Q. YOU HAVE STATED THAT ACCESS IS THE LEAST LIKELY SERVICE TO**
12 **BE POSITIVELY AFFECTED BY COMPETITION. WHY IS THIS THE CASE?**

13 A. Although competition has not developed in any of the TEC companies' local exchange
14 markets, such a scenario and the impact on access prices can be examined. In this
15 scenario, a competitive local exchange provider could build or lease telecommunications
16 facilities in the territory of the traditional incumbent local exchange company (ILEC).
17 The CLEC could market competitive services to end-users. For example, the CLEC
18 could offer basic local service, custom calling features, CLASS features, PBX trunks,
19 local private line connections, etc., and compete with the incumbent on the basis of
20 product mix, service, price, or other marketing techniques. In this case, the end-user
21 would clearly have a choice (he/she could purchase local service from the incumbent or
22 select an economic substitute from the new market entrant) and the economic effects and
23 benefits of competition (i.e., choice, more desirable products/services at lower prices)
24 would become possible.

1
2 However, even in this scenario competition for switched access service could not
3 develop. Once the end-user made his/her selection of a local carrier, all interexchange
4 carriers (providers of long distance or toll services) would have to purchase switched
5 access service from the selected provider in order to complete calls to the end user.

6 There would still be no alternative or economic substitute for the switched access
7 services. The interexchange carriers would have to purchase these services at whatever
8 level of quality and at whatever price the local provider offered them. This example is
9 not rigged and it is not unique. It is simply impossible to conceive of an arrangement
10 where switched access service (particularly terminating switched access service) could
11 become a competitive force for residential customers.

12
13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 **A. Yes.**

CERTIFICATE OF SERVICE

I, Gene V. Coker, hereby certify that I have on this 14th day of September 2001 served via Hand-Delivery or first class mail, a copy of the foregoing Rebuttal Testimony of AT&T Communications of the South Central States, Inc. witness Richard T. Guepe on T.G. Pappas and R. Dale Grimes, Esq. Bass, Berry & Sims, 2700 First American Center, 313 Deaderick Street, Nashville, TN 37238-2700 and a copy to Timothy C. Phillips, Esq., Consumer Advocate Division, 425 5th Avenue, North, P. O. Box 20207, Nashville, TN 37202.

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Gene V. Coker *G. Sharp*